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No output VAT if input VAT was denied in Botswana

Today, we'll explore one intriguing topic of VAT (Value Added Tax) and its impact on business transactions. More specifically, we'll look at the no input VAT no output VAT rule. In other words, this rule implies that no output VAT should be levied on a sale if the respective input VAT was disallowed at the point of acquisition. Output VAT is VAT charged when a VAT-registrant sells goods or services and input VAT is VAT that is suffered on acquisition of business inputs. The said rule can have a significant impact on businesses and it is important to analyse its implications. Keep on reading and allow us to help you understand this principle. In this article, words importing the masculine shall be deemed to include the feminine.

The basics

To start, we'll give a brief overview of VAT and how it works. It is important to note that (VAT) is an indirect consumption tax, charged on the supply of taxable goods and services. It is levied on transactions rather than directly on income or profit and is also levied on the importation of goods and services. Another way of looking at it is that VAT is a consumption tax on goods and services that is levied at each stage of the supply chain where value is added, from initial production to the point of sale. The amount of VAT the user pays is based on the cost of the product minus any costs of materials or services in the product that have already been taxed at a previous stage. Let us now dive into the specifics of the no input VAT no output VAT rule as prescribed by the VAT Act.

The law

The VAT Act states that, in verbatim, 'Where a registered person supplies goods or services and a deduction for input tax paid on the acquisition of such goods or services was denied, the supply by the registered person is a supply of goods or services otherwise than in the course or furtherance of a taxable activity.' To decipher this technical jargon, the VAT Act simply prescribes that if input VAT on a purchase has been disallowed, then no output VAT should be charged on a subsequent sale of the same goods or services.

Now, let's look at an example to illustrate the rule. Let us suppose that XYZ purchased goods for P100,000 (excluding VAT of P 14,000) from another company, ABC and XYZ sells those same goods for P 150,000 (before VAT). If XYZ was denied any input VAT by the VAT Act on the original purchase, then XYZ cannot charge output VAT on the sale to DEF. This technically means that XYZ would have absorbed the input VAT it suffered on purchasing the goods from ABC. In other words, the VAT becomes a cost to XYZ which technically makes XYZ the final consumer for VAT purposes.

Conclusion

In a nutshell, the 'no input VAT, no output VAT' rule is a complex concept with both benefits and challenges for businesses and taxpayers. It's important to understand how the rule works and to make sure that taxpayers remain compliant with the VAT laws.

Well, folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay Caesar what belongs to him. If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send a text to +267 7181 5836 or email us at jhore@aupracontax.co.bw. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab.